



SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-94921; File No. SR-ICC-2022-002]

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the ICC Risk Parameter Setting and Review Policy

May 16, 2022.

I. Introduction

On March 22, 2022, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend its Risk Parameter Setting and Review Policy (the “RPSR Policy”). The proposed rule change was published for comment in the Federal Register on April 4, 2022.³ The Commission did not receive comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

The RPSR Policy describes ICC’s process of setting and reviewing the risk management model core parameters and the performance of sensitivity analyses related to certain parameter settings.⁴ Overall, ICC represents the proposed amendments would be clarifications needed to address an independent model validation and would not change the methodology.⁵

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the ICC Risk Parameter Setting and Review Policy; Exchange Act Release No. 34-94544 (March 29, 2022); 87 FR 19563 (April 4, 2022) (SR-ICC-2022-002) (“Notice”).

⁴ The description is substantially excerpted from the Notice, 87 FR at 19563. Capitalized terms not defined herein have the meanings assigned to them in the RPSR Policy or the ICC Rules, as applicable.

⁵ Notice, 87 FR at 19563.

The proposed rule change would amend Section 1.7, which describes the parameters associated with the integrated spread response component of ICC’s CDS risk model. The RPSR Policy categorizes these parameters as Univariate, Multivariate, and Anti-Procyclicality Level Parameters. The proposed rule change would make amendments to Subsection 1.7.1, which describes the Univariate Level Parameters.

As part of these Univariate Level Parameters, ICC derives the end-of-day (“EOD”) recovery rate for single name risk factors (meaning each single name CDS contract).⁶ The proposed rule change would add text to explain how ICC derives the EOD recovery rate from price quotes submitted by Clearing Members. For each single name risk factor, the EOD recovery rate would reflect the smaller of the standard market convention recovery rate and the minimum submitted EOD bid price submitted by Clearing Members. The proposed changes would explain that the EOD recovery rate would be the minimum submitted EOD bid price, and therefore would deviate from the standard market convention, when the single name risk factor itself is distressed. The proposed language would further specify the role of the established EOD recovery rate in using the ISDA Standard Model for price-to-spread mapping.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.⁷ For the reasons discussed below, the Commission finds that the proposed rule

⁶ As explained in ICC’s Risk Management Model Description, every index, sub-index, or underlying single name is deemed a Risk Factor. See Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change Relating to the ICC Risk Management Model Description, Exchange Act Release No. 91918 (May 18, 2021), 86 FR 27927 (May 24, 2021).

⁷ 15 U.S.C. 78s(b)(2)(C).

change is consistent with Section 17A(b)(3)(F) of the Act⁸ and Rule 17Ad-22(e)(6)(vi)(B) thereunder.⁹

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of ICC be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁰ Based on its review of the record, and for the reasons discussed below, the Commission believes the proposed changes to RPSR Policy are consistent with the promotion of the prompt and accurate clearance and settlement of transactions at ICC.

The Commission believes that the change should improve the RPSR Policy by documenting how ICC derives the EOD recovery rate from price quotes submitted by Clearing Members for Univariate Level Parameters. The Commission believes that documenting ICC's approach should help to ensure that ICC derives the EOD recovery rate and related Univariate Level Parameters in a clear and consistent manner. Because ICC uses the RPSR Policy to set and review core parameters for ICC's risk management model, the Commission believes that this improvement to the RPSR should help to ensure the continued efficacy of the risk management model. An effective risk management model should help to ensure that ICC collects sufficient margin, commensurate with the risks presented by the transactions its clears. The Commission thus believes the proposed rule change should ultimately help to ensure that ICC collects sufficient margin, and in doing so should help improve ICC's ability to avoid losses that could result during periods of market stress. Because such losses could disrupt ICC's ability to operate and thus promptly and accurately clear and settle security based swap transactions, the

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ 17 CFR 240.17Ad-22(e)(6)(vi)(B).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

Commission finds the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹¹

B. Consistency with Rule 17Ad-22(e)(6)(vi)(B)

Rule 17Ad-22(e)(6)(vi)(B) requires that ICC establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum is monitored by management on an ongoing basis and is regularly reviewed, tested, and verified by conducting a sensitivity analysis of its margin model and a review of its parameters and assumptions for backtesting on at least a monthly basis, and considering modifications to ensure the backtesting practices are appropriate for determining the adequacy of ICC's margin resources.¹² As discussed above, the proposed rule change would document how ICC derives the EOD recovery rate from price quotes submitted by Clearing Members for Univariate Level Parameters. In doing so, the Commission believes the proposed rule change would help to ensure that ICC analyzes this particular aspect of the Univariate Level Parameters, which the RPSR Policy requires ICC's Risk team to estimate and review, and perform sensitivity analysis on, at least monthly. Therefore, the Commission finds that the proposed rule change is consistent with Rule 17Ad-22(e)(6)(vi)(B).¹³

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² 17 CFR 240.17Ad-22(e)(6)(vi)(B).

¹³ 17 CFR 240.17Ad-22(e)(6)(vi)(B).

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act¹⁴ and Rule 17Ad-22(e)(6)(vi)(B) thereunder.¹⁵

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act¹⁶ that the proposed rule change (SR-ICC-2022-002), be, and hereby is, approved.¹⁷

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

J. Matthew DeLesDernier,
Assistant Secretary.

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¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ 17 CFR 240.17Ad-22(e)(6)(vi)(B).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁸ 17 CFR 200.30-3(a)(12).